

SMIA

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**Supplier Handbook
Complaint Management**

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1. Scope of application

This supplier handbook represents a binding agreement between SMIA and the supplier with regard to the processing of complaints as well as liability in the event of a guarantee claim. Consistent compliance with all regulations and obligations is mandatory and must be firmly implemented within the supplier's procedures and processes.

The scope of application of this agreement includes the products and product parts manufactured by the supplier as well as the products and product parts provided to the supplier by SMIA as a so-called "extended workbench", where the supplier will perform a work service (hereinafter "service") by e.g. coating or mounting adhesive tape or clips. The products and product parts which are manufactured or refined as a service by the supplier are referred to hereinafter as "contractual objects".

The existing regulations apply in combination with the quality management agreement (QMA), the SMIA framework contract for purchased parts and other contractual documents as the basis for every concluded contract to supply contractual objects in the version valid at the time of the supply agreement, or in a later version deemed to be agreed upon, even if this has not been pointed out explicitly.

A later version is considered to be agreed with the supplier for existing supply contracts in as far as the supplier does not object in writing within two weeks after being informed of the altered version. In the event of new enquiries and new commissions, the supplier is obligated to request the then current version of the supplier handbook from SMIA. When the order is awarded to the supplier, the then current version of the supplier handbook becomes an integral part of the contract in as far as the supplier did not object to all or part of the supplier handbook prior to the contract award.

2. Complaint Definition

In principle, the supplier is obliged to meet a zero-error target, i.e. to deliver all (100%) of the contractual objects fault-free.

The supplier's quality management must ensure that a contractual object which does not meet the agreed requirements will be identified and monitored to avoid its accidental use or delivery. The supplier undertakes to inform SMIA immediately if contractual objects are found to be defective.

Any delivery of contractual objects which do not comply in terms of their type, quantity or condition with the agreed requirements recorded in SMIA enquiry documents, drawings, specifications or other written agreements, particularly

the applicable documents and specifications conforming to the project-related price sheet in the framework contract for purchased parts, will give rise to objections in the form of complaints. In the event of a complaint, we shall exercise due diligence by calling on the supplier to inform his/her insurance without delay about the factual circumstances.

A complaint can be based on the following grounds:

- *Surface irregularities/paint defects*
- *Defective functionality*
- *Dimensional deviations*
- *Discrepancies in quantities*
- *Deviations from scheduled dates*
- *Incorrect labelling (hereinafter referred to as incorrect tagging)*
- *Packaging non-compliant with relevant regulations*
- *Damages during transportation*
- *etc.*

SMIA reserves the right to define further grounds for complaints.

In the event of a delivery of defective contractual objects, the supplier is obligated to ensure corrective actions immediately (delivery of a replacement/special deliveries, subsequent work/sorting operations).

Should quality defects be discovered in delivered contractual objects, the supplier shall be informed of the error pattern. Latent and hidden defects in terms of Article 377 of the German Commercial Code [HGB] which were not discovered until actual use, and are not recognizable as obvious defects, will be reprimanded immediately after discovery. To this extent, the supplier will waive the objection against a late notice of defects.

The supplier is obligated to respond within 24 hours by defining immediate measures to rectify the defect and informing SMIA of these actions in the form of an 8D report. Following consultation with SMIA, the supplier can in special cases submit a written statement explaining the causes, describing corrective measures and setting a completion deadline.

If an inspection report/complaint has been compiled, the supplier must prepare an 8D report and forward it to SMIA with an immediate action plan.

To avoid line stoppages and maintain production/manufacturing, SMIA reserves the right to rework or sort out the defective contractual objects at the supplier's expense and call in third parties for this purpose.

An interim report with a cause analysis and determined measures must be forwarded without solicitation within 7 days.

No later than fourteen days after the complaint date, the final 8D report must be sent without solicitation to the responsible SMIA case officer.

The case officer must be informed of measures which cannot be implemented within the given deadlines as soon as this situation is realised.

After the receipt of an inspection report/complaint, the next 3 shipments must be fully (100%) inspected for repetitions of the previous error pattern and tagged accordingly.

The tag should contain at least the numbers of the inspection report/complaint, the name of the inspector and a date.

An appropriate measure to identify and track merchandise (items in transit) must be determined in cooperation with the complaints processor.

Only SMIA can issue special approvals. These must be documented in writing and the contractual objects must be clearly identified with the tag "special approval" [*Sonderfreigabe*] and the name of the SMIA case officer.

3. Guarantee: Content of the Guarantee Obligation

3.1 A further element of this agreement is the supplier's material defect warranty/guarantee for all delivered contractual objects. The following provisions apply in addition to Article 11 of the SMIA framework contract for purchased parts, Section 6 of the SMIA general purchasing conditions and the guarantee regulations in applicable SMIA contracts for so-called "extended workbenches".

3.2 The causes of defects in contractual objects which lead to guarantee claims must be investigated by the supplier at his/her cost. The scope and intensity of the inspections must be agreed with SMIA. The inspection results including the planned corrective measures must be submitted to SMIA immediately.

At his/her cost, the supplier shall regularly monitor the effectiveness of the measures and report the results to SMIA. If the supplier is not in a position to perform his/her own inspections, SMIA will, at the supplier's request, perform the inspections at the supplier's expense. The contractual parties will agree in advance on the total cost.

4. Guarantee Period

For the SMIA customers listed in Annex 1, the guarantee period - which is also listed in Annex 1 - is regarded as agreed with the supplier. In other respects, liability for material defects extends over a period of 36 months from the date

of the vehicle's first registration or from the sale of the final product to the dealer (industrial sector) as well as from the date when the spare part was installed.

5. Complaint/Guarantee for “zero-kilometre” failures

The “zero-kilometre” failures comprise complaints arising from defects discovered

- 1 *in the SMIA incoming goods department*
- 2 *during further processing at SMIA (exception: inappropriate handling of the parts by SMIA)*
- 3 *on the production line or during functional testing after installation on the SMIA customer's premises (customer complaint).*

Prior to manufacturing (processing or installation) at SMIA, the supplier is given an opportunity to remove the defects, i.e. by subsequent rectification or subsequent (replacement) delivery. Inter alia, SMIA will call on the supplier to perform an immediate fault diagnosis or, if need be, a sorting procedure at SMIA; prepare a plan related to causes and corrective measures (8D report or similar); and, if applicable, perform an approved subsequent delivery.

The remarks made in Paragraph 2 on “Complaint Definition” apply likewise here.

Should operational and especially manufacturing or process-related technical reasons make it unreasonably difficult for SMIA to let the supplier rectify defects or replace a contractual object within the required time, or should this prove impossible for the supplier, SMIA shall be entitled to rectify such defects itself or call in a third party to do so. This applies particularly if SMIA cannot reach the supplier immediately after discovering the defect and/or the supplier is unable remedy the defects immediately.

In order to avert line stoppages and maintain production/manufacturing, SMIA reserves the right to rework or sort out the defective contractual objects at the supplier's expense. Third parties can also be called on for this purpose.

Alternatively, SMIA is entitled to withdraw from purchasing the defective contractual objects or the defective service without setting a new deadline, and may also return the defective contractual objects at the supplier's risk.

If the same contractual objects are repeatedly delivered with defects, SMIA is entitled after issuing a written warning to withdraw from the unfulfilled scope of supply if yet another delivery proves defective.

In the case of customer complaints, SMIA has the same rights and duties as those described in Paragraph 5. In exceptional cases where a subsequent improvement of contractual objects is possible, SMIA will seek its customer's consent to give the supplier an opportunity for subsequent improvement. If the supplier cannot perform the work because he is genuinely incapable of rectifying the defect or cannot do so immediately, a resulting guarantee claim will require the supplier to bear the costs incurred by SMIA for replacement measures or other work at its customer's premises, for immediate and thorough repairs or for replacing the defective contractual object (e.g. installation expenditures, travel expenses, administrative expenditures etc.). The allocation base is derived from the cost rates which the customer offsets against SMIA.

SMIA will issue inspection reports for all above-mentioned cases of defect rectification or return shipments and provide them to the supplier while specifying the incurred expenditures to be reimbursed by the supplier.

Based on the contents of the inspection report, the following costs will be invoiced to and paid by the supplier (the supplier must be informed in advance of complaint or objection values amounting to €1,000 or more).

5.1 For complaints in the incoming goods depart at SMIA:

- the current series price of the defective object;
- plus freight costs for a return shipment or, if the supplier foregoes the return, for scrapping costs at SMIA;
- plus flat rate for packaging;
- plus processing expenditure,
- or inspection, sorting and reworking costs;
- plus processing expenditure

5.2 For complaints after further processing at SMIA:

- the current series price of the defective contractual object;
- plus freight costs for the return, or respectively for the scrapping costs at SMIA, if the supplier forgoes the return;
- plus dismantling/installation costs as well as material costs for component parts of SMIA or other SMIA suppliers which have been rendered unusable by the further processing of the supplier's defective contractual object;
- plus processing expenditures,
- or costs for inspection, sorting and reworking;
- plus processing expenditures

5.3 For customer complaints:

- the current series price of the defective contractual object;
- plus freight costs for the return, or scrapping costs at SMIA if the supplier forgoes the return;
- plus dismantling/reinstallation costs as well as material costs for components of SMIA or other suppliers of SMIA which have been rendered

unusable by the further processing of the supplier's defective contractual object;

- plus the costs of the SMIA customer's complaint-related expenditures, which the customer invoices to SMIA. Upon request, the supplier will be permitted to study the SMIA customer's original documents;
- plus processing expenditure;
- possibly also inspection, sorting and reworking costs

If it seems a reasonable aid to handle individual complaint levels, standard transfer prices can also be agreed to facilitate the complaint processing. These prices will apply for the individually defined periods and will be documented as an annex to this guarantee agreement.

5.4 *Repeated Complaints*

Repeated complaints are understood to be a reoccurrence of error patterns which the supplier supposes to have been corrected already. This signifies an initial, temporary inability to remedy the error. A repeated complaint causes the entire delivered batch of contractual objects to be regarded as unusable and is rated as a 100% failure (Level 4) in the supplier evaluation.

In the case of repeated complaints, the supplier undertakes to implement immediate measures to finally banish the error pattern. These measures must be submitted to SMIA in the form of an action plan. Up to the implementation and verification of the measures, the contractual object must be fully (100%) monitored for the error pattern and tagged as described in Paragraph 2 on "Complaint Definition".

To verify the measures, the three deliveries following implementation of the measures must be monitored 100% by the supplier. If the familiar defect reoccurs during the verification phase, the existing action plan must be reviewed and reassessed. The causes should be analysed with established quality measuring instruments and presented in an 8D report. (5 Why, Ishikawa etc.) SMIA can test the effectiveness on the supplier's premises.

6. Guarantee for Field Failures

Field failures, for which the supplier is responsible, are defects of component assemblies sold by SMIA to its customer, or of contractual objects which have left the production site of a SMIA customer with defects whose cause can be traced back to contractual objects delivered by the supplier. A field failure also occurs in affected vehicles which have not yet undergone their initial registration or have not yet been transferred to an end customer, or in an affected spare part which has not yet been sold to an end customer.

6.1 *Return of parts by means of spot checks*

Within the scope (spot checks) agreed on with the customer, SMIA will provide the supplier from the so-called reference market in terms of Paragraph 6.2 with entire SMIA assemblies/contractual objects that are subject to defect complaints. This spot check will be formed by the defective part section of a reference market. The reference market is Germany, unless otherwise agreed. The sample size usually comprises 10-30% of the defective parts which have accumulated in the reference market

6.2 Diagnosis

SMIA will provide the supplier with the defective parts received from the customer for an in-house diagnosis at SMIA or, upon agreement, on the supplier's premises. The supplier will monitor the defective parts or decide on further diagnostic steps in consultation with SMIA. If the supplier does not communicate any findings to SMIA within 4 weeks, the supplier will have accepted his/her liability for the deficiencies of the defective parts concerned.

In as far as the supplier has discovered no defect or the supplier does not regard himself as responsible for causing the defect, SMIA itself or the two parties together can carry out a new diagnosis and evaluate the outcome. If the supplier recognises the defect or it can be proved against him, the supplier must refund the damage in terms of Subparagraphs 6.3 and 6.4.

6.3 Calculation of guarantee-related costs according to acceptance rate

Based on the results of the inspection/diagnosis of the defective part or of completed analyses, a so-called acceptance rate for contractual objects - related either to product groups or to all SMIA products - will be calculated, usually at quarterly intervals. This acceptance rate will be transferred to worldwide failures of defective parts of the same product group (market basket) or all SMIA products.

This means that contractual objects which were not subjected to an inspection or completed analysis, but nevertheless caused costs to arise during the relevant accounting period, will be taken into consideration by the acceptance rate, related to product groups or to all SMIA products.

6.4 Cost calculation

The costs for material defects arise from expenditures required for the purpose of subsequent fulfilment. They are as follows:

- the current series price of the defective object of the contract;
- plus flat-rate processing costs, freight costs for a return shipment or alternatively, scrapping costs at SMIA if the return is waived;
- plus replacement costs for the share of SMIA's deliveries to the customer that failed and was found to be faulty, minus the current series price of the contractual object contained in the defective part;

- plus the costs invoiced to SMIA by the customer for the return of the defective part, or the outward shipment of the replacement part, including customs, handling, packaging, freight and insurance costs. Upon request, SMIA will allow the supplier to study the SMIA customer's original documents;
- plus processing expenditure;
- plus the country- and application-related wage costs for which SMIA has been invoiced by the customer, i.e. inter alia, costs for dismantling the defective part and installing the replacement part. Upon request, SMIA will allow the supplier to study the SMIA customer's original documents.

In order to facilitate processing, standard transfer prices for guaranteeing and diagnosing defective parts can also be agreed for individual contractual objects of the supplier and SMIA customers. If necessary, these prices can also include surcharges for the settlement of the guarantee process for defective parts, not including diagnosis. These standard transfer prices will apply for the individually defined periods and will be documented as an annex to this guarantee agreement.

7. Serial Damages

Serial damages are damages arising from the same causes of faults or design defects. The supplier is liable for his/her design defects (e.g. relating to assembly procurement or in-house development by the supplier)

As soon as SMIA learns of a potential serial damage which can be traced back to contractual objects delivered by the supplier, SMIA will inform the supplier about this situation as comprehensively as possible.

The supplier undertakes to provide fault-free parts for the series and the field. Furthermore, the supplier will release SMIA from any incurred costs arising from the preventive aftersales service measures envisaged by SMIA or SMIA customers (recall, exchange of components, provision and use of repair kits etc.)

The following guideline values apply in principle to this exemption from costs (the supplier must be informed in advance of complaint or objection values amounting to €1,000 or more):

- the current series price of the defective contractual object which is included in the entire SMIA components exchanged in the framework of preventive aftersales service measures;
- plus the customer's replacement costs for the entire SMIA entire components exchanged in the framework of the preventive aftersales ser-

vice measures, minus the current series price of the contractual objects. Upon request, SMIA will allow the supplier to study the SMIA customer's original documents;

- plus the costs for which SMIA has been invoiced by the customer or the interpolated service provider for the return or outgoing shipment of the exchanged parts, including customs and insurance costs. Upon request, SMIA will allow the supplier to study the SMIA customer's original documents;
- plus the costs for which SMIA has been invoiced by the customer or interpolated service provider for dismantling the recalled part and installing the replacement part. Upon request, SMIA will allow the supplier to study the original documents of the SMIA customer/interpolated service provider.

SMIA will negotiate the planned aftersales service measures (recall, exchange of the components, provision of repair kits and repair kit service etc.) with the supplier and the SMIA customer with the goal of minimising the costs and image impairment of all parties concerned.

8. Model for Escalation Levels - Escalation Ladder

	Initiated by:	Supplier's measures:	SMIA measures:
Normal	<p>No occurrences</p> <p><i>A - Supplier</i></p>	Long-term safeguarding of the current state	Continuous monitoring of the supplier's performance
Escalation Level 1	<p>Complaint</p> <p><i>B - Supplier</i></p>	<ul style="list-style-type: none"> - Creation of 8D report - Preparation of an action plan, if necessary - Reporting corrective actions - 100% monitoring of the 3 subsequent deliveries 	<ul style="list-style-type: none"> - Checking the next one-to-three goods receipts - In-house departmental information - Passive supplier management
Escalation Level 2	<p>Repeated complaints</p> <p><i>C - Supplier</i></p>	<ul style="list-style-type: none"> - Quality meeting at SMIA - Strategy presentation - Introduction of regular communication with SMIA - 100% control of 3 deliveries after introduction of corrective actions 	<ul style="list-style-type: none"> - Monitoring the corrective actions (audits) - Active supplier management - Supplier development plan
Escalation Level 3	<p>Long-term inability</p> <p><i>D - Supplier</i></p>	<ul style="list-style-type: none"> - Visit of the SMIA corporate management - Presentation of the escalation plan - 100% monitoring by supplier - 100% monitoring by third company 	<ul style="list-style-type: none"> - Decision about continuation of the business relationship - Purchase order breakpoint - Monitoring corrective measures

Annex 1: Guarantee Period

In accordance with Paragraph 4, the extended guarantee periods listed below apply to contractual objects of the supplier which are used by the following customers of SMIA as independent components or parts of an SMIA assembly:

- 1. BMW Group**
 - in general: 48 months from the first registration of the vehicle, or from the installation of the spare parts into the vehicle. For deliveries to the USA, Canada or Puerto Rico: 60 months from the first registration of the vehicle, or from the installation of the spare parts into the vehicle.
- 2. Ford Group (Ford, Volvo)**
 - Worldwide: 36 months from the first registration of the vehicle or the installation of the spare parts into the vehicle, with the following exception:
 - For North America: 48 months from the first registration of the vehicle or the installation of the spare parts into the vehicle.
- 3. GM Group (Opel, Vauxhall etc.)**
 - 36 months from the first registration of the vehicle or the installation of the spare parts into the vehicle
- 4. Porsche**
 - 48 months from the delivery date of the contractual object to Porsche worldwide
- 5. Honda**
 - 36 months from the first registration of the vehicle or the installation of the spare parts into the vehicle worldwide
- 6. Toyota**
 - 60 months from the first registration of the vehicle or the installation of the spare parts into the vehicle or 100,000 km worldwide
- 7. VW Group (Audi/VW/Skoda/Seat/Porsche)**
 - 48 months from the first registration of the vehicle or the installation of the spare parts into the vehicle
- 8. Daimler**
 - 48 months from the first registration of the vehicle or the installation of the spare parts into the vehicle

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This agreement is confirmed as legally binding by:

Company Stamp:

Date:

Signatures:

SMIA

Supplier